

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 ISO-00 COME-00 AGR-20

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FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 625

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY GUATEMALA

AMEMBASSY LONDON

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

AMEMBASSY SAN SALVADOR

AMEMBASSY SAN JOSE

AMCONSUL LUANDA

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS/ EAGR, BR

SUBJECT: RECENT COFFEE DEVELOPMENTS

FOLLOWING SUMMARIZES RECENT CONGEN DISCUSSIONS WITH PRIVATE COFFEE TRADERS.

1. BRAZIL'S COFFE CROP THIS YEAR WILL BE VERY GOOD, BOTH IN QUANTITY AND QUALITY, PROVIDED HEAVY RAINS DO NOT FALL DURING NEXT TWO MONTHS. BRAZIL COFFEE INSTITUTE (IBC) REPORTEDLY PROJECTS 24.7 MILLION BAG CROP WHILE ANDERSON CLAYTON PROJECTS 23.6 MILLION. LATTER ADMITS, HOWEVER, THAT BOTH OF THESE PROJECTIONS WILL SOON BE REVISED UPWARD. TWO OTHER LARGE COMPANIES FORESEE A CROP OF ABOUT 25 MILLION BAGS, BUT ONE OF THESE

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CONCEDED THAT ITS FORECAST WILL SOON BE INCREASED. IN RESPONSE

TO A QUESTION, IN FACT, PRIVATE TRADER STATED 27 MILLION BAG CROP WAS POSSIBLE. IN SUBSEQUENT STATEMENT, HE PREDICTED AVERAGE ANNUAL CROP COULD WELL REACH 30 MILLION BAGS IN TWO TO THREE YEARS AS TREES PLANTED DURING PAST TWO YEARS BEGIN TO BEAR FRUIT.

2. CONSENSUS SEEMS EXIST THAT BRAZIL STILL NOT REALLY INTERESTED IN RENEWAL OF STRONG ICA. CALAZANS DE MAGALHAES HAS EXPRESSED PERSONAL PREFERENCE FOR REVIVAL OF ICA, BUT HE HAS ALSO INDICATED UNWILLINGNESS SACRIFICE ANYTHING IN ORDER TO ACHIEVE SUCH AGREEMENT. ADMITTEDLY, HOWEVER, HE STILL FORMULATING IBC POLICY AND HAS EXPRESSED CONCERN AS TO WHAT MAY OCCUR IN FUTURE WHEN WORLD AGAIN FACES SURPLUS COFFEE SITUATION.

3. MORE IMMEDIATE PROBLEM IS POSSIBILITY OF SHARP DROP IN BRAZIL'S COFFEE EXPORT DURING NEXT FEW MONTHS. SINCE END OF FEBRUARY, BRAZIL HAS REPORTEDLY SOLD NO COFFEE TO U.S. BUYERS AND EXTREMELY LITTLE TO REST OF WORLD. AS OF END OF APRIL, TOTAL OF ONLY 1.4 MILLION BAGS ALLEGEDLY SOLD AND/OR REGISTERED FOR EXPORT DURING MAY AND JUNE, I.E., AVERAGE OF ONLY 700,000 BAGS FOR MONTH. THIS FIGURE ONLY SLIGHTLY MORE THAN ONE HALF OF 1.5 MILLION MONTHLY AVERAGE EXPORTED IN EACH OF FIRST THREE MONTHS OF 1974. PICTURE EVEN MORE DISCOURAGING THAN THIS FIGURE INDICATES BECAUSE REGISTRATIONS DO NOT NECESSARILY IMPLY COFFEE HAS BEEN SOLD. RATHER, REGISTRATIONS ARE FREQUENTLY COMPLETED IN ORDER ENABLE PRODUCER TO OBTAIN DOMESTIC FINANCING.

4. POOR PERFORMANCE BRAZIL'S RECENT COFFEE SALES ATTRIBUTED BASICALLY TO PRICES OF OTHER COFFEES AND MARKETING POLICY OF OTHER PRODUCERS. AS CENTRAL AMERICAN PRODUCERS RUSHED THEIR CROPS TO MARKET, LIST PRICE FOR UNWASHED ARABICAS HAS MOVED SOME 8 TO 10 CENTS PER LB ABOVE OTHER MILDS, MAKING LATTER MUCH MORE ATTRACTIVE TO IMPORTERS. SIMULTANEOUSLY, COLOMBIAN MILDS HAVE BEEN ONLY TWO TO THREE CENTS PER LB ABOVE UNWASHED ARABICAS, AND INDEED EVEN DIPPED BELOW UNWASHED ARABICAS FOR VERY BRIEF PERIOD. TO WORSEN MATTERS, COLOMBIA APPARENTLY HAS BEEN QUIETLY GIVING IMPORTERS A DISCOUNT, WHICH IN EARLY MAY ALLEGEDLY AMOUNTED TO ABOUT 6 CENTS PER LB. ONE TRADER CLAIMS COLOMBIA WAS SO ANXIOUS TO BOOST ITS EXPORTS THAT ITS SALES HAVE BEEN 2 MILLION BAGS LARGER THAN MAXIMUM IT SUPPOSEDLY ACCEPTED AS MEMBER OF CAFE LIMITED OFFICIAL USE

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MUNDIAL. BRAZIL, HAVING VIRTUALLY TERMINATED ITS DISCOUNT PRACTICES IN MID-MARCH, COULD NOT MEET THIS COMPETITION, PARTICULARLY SINCE BUYERS UNWILLING TAKE FORWARD POSITION IN BRAZIL UNTIL IBC CLEARLY DEFINES ITS POLICIES.

5. CAUGHT IN THIS SQUEEZE, BRAZIL DECIDED TO STRENGTHEN ITS TIES WITH COLOMBIA AND, WITH THAT COUNTRY, TO SUPPORT PRICES OF CENTRAL AMERICAN MILDS. NEWSPAPER REPORTS CLAIM BRAZIL HAS REACHED

ACCORD WITH COLOMBIA AND HAS AGREED PROVIDE U.S. \$100 MILLION TO SUPPORT INTERNATIONAL PRICES OF OTHER MILDS. REPORT RECEIVED MAY 8TH BY LOCAL TRADER FROM COSTA RICA CONFIRMS THAT AGREEMENT WAS REACHED, BUT DETAILS HE PROVIDES VARY SOMEWHAT FROM PRESS ACCOUNTS. HE ASSERTS THAT BRAZIL, COLOMBIA, MEXICO AND CENTRAL AMERICAN PRODUCERS AGREED TO FORM COOPERATIVE AGENCY WITH INITIAL FUND OF \$150 MILLION, PROVIDED MOSTLY BY BRAZIL. MONEY TO BE USED TO BUY ALL CENTRAL AMERICAN COFFEE SPOT CONTRACTS AVAILABLE IN NEW YORK AND TO ASSIST CENTRAL AMERICANS TO WITHDRAW FROM MARKET. COLOMBIA, MEANWHILE, SUPPOSEDLY AGREED NOT TO SELL ANY MORE COFFEE FOR TWO TO THREE MONTHS. THESE EFFORTS, BRAZIL APPARENTLY HOPES, WILL BOOST PRICE OF COLOMBIAN AND OTHER MILDS WHILE PRICE OF UNWASHED ARABICAS WOULD REMAIN RELATIVELY STABLE.

6. BRAZIL APPARENTLY NOT WILLING TO RELY COMPLETELY ON THIS ARRANGEMENT. INSTEAD, IBC HAS BEEN CONSIDERING ADDITIONAL MEASURES TO PROMOTE REEXPORTS. IT HAS, FOR EXAMPLE, BEEN REVIEWING DESIRABILITY OF REINTRODUCING DISCOUNTS. IT REPORTEDLY WOULD PREFER TO ENTER DISCOUNT CONTRACTS FOR PERIODS OF ONLY THREE MONTHS RATHER THAN LONGER TERM CONTRACTS PREVIOUSLY SIGNED UNDER "SPECIAL DEALS" AGREEMENTS. DECISION ON THIS ISSUE, AS ON OTHER MAJOR POLICY QUESTIONS, IS STILL PENDING FURTHER STUDY.
BOONSTRA

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